

TOWN OF GRAFTON, MASSACHUSETTS

**Report on the Examination
Of Basic Financial Statements**

For the Year Ended June 30, 2016

TOWN OF GRAFTON, MASSACHUSETTS

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Grafton, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Grafton, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Grafton, Massachusetts, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension plan and other postemployment benefit plan schedules as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Grafton, Massachusetts' basic financial statements. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Town of Grafton Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Grafton, Massachusetts' internal control over financial reporting and compliance.



Scanlon & Associates, LLC
South Deerfield, Massachusetts

December 7, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Grafton, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Town's financial performance.

Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$82,928,875 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows exceeded liabilities by \$85,705,673 a decrease of \$2,776,798 (3%).
- At the close of the current fiscal year, the Town's governmental funds reported total ending fund balance of \$18,273,635, a decrease of \$3,051,090 (14%) in comparison with the prior year.
- The General Fund's total fund balance decreased \$719,542 (7%) to \$10,011,556. The ending General fund balance is 17% of revenues and transfers in and 17% of expenditures and transfers out.
- Total liabilities of the Town increased by \$10,663,167 (13%) to \$93,902,260 during the fiscal year. This net change resulted mainly from increases in bond anticipation notes payable of \$6,932,971 for a wastewater treatment plant project, OPEB obligation payable of \$3,167,921 and net pension liability of \$3,205,723 and net decrease in bonds and leases payable of approximately \$2,620,824.
- The Town had General fund free cash certified by the Department of Revenue in the amount of \$2,186,331. The key factors that attributed to the free cash amount for fiscal year 2016 were unexpended/unencumbered appropriations of \$362,900, excess over budget state and local receipt of \$501,600 and prior year free cash not appropriated of \$813,000.
- The Town's enterprise fund certified free cash is as follows:
 - Sewer fund \$ 1,229,566.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Grafton's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets, deferred outflow of resources, liabilities and deferred inflows of resources with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are

reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The business-type activity includes the sewer activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Grafton adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its sewer activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Highlights
Statement of Net Position Highlights

	Governmental Activities		
	2016	2015	Change
Assets:			
Current assets	\$ 23,567,594	\$ 27,061,480	\$ (3,493,886)
Capital assets	122,476,107	121,787,863	688,244
Total assets	146,043,701	148,849,343	(2,805,642)
Deferred Outflows of Resources:			
Deferred outflows related to pensions	1,766,038	10,436	1,755,602
Liabilities:			
Current liabilities (excluding debt and leases)	2,531,868	3,552,218	(1,020,350)
Current debt	2,584,684	2,550,824	33,860
Noncurrent liabilities (excluding debt and leases)	40,687,029	34,620,076	6,066,953
Noncurrent debt	34,900,906	37,485,590	(2,584,684)
Total liabilities	80,704,487	78,208,708	2,495,779
Deferred Inflows of Resources:			
Deferred inflows related to pensions	171,233	-	171,233
Net Position:			
Net investment in capital assets	85,007,177	81,772,274	3,234,903
Restricted	9,691,965	11,301,873	(1,609,908)
Unrestricted	(27,765,123)	(22,423,076)	(5,342,047)
Total net position	\$ 66,934,019	\$ 70,651,071	\$ (3,717,052)

	Business-Type Activities		
	2016	2015	Change
Assets:			
Current assets	\$ 6,390,848	\$ 4,594,830	\$ 1,796,018
Noncurrent assets (excluding capital assets)	658,418	800,299	(141,881)
Capital assets	22,088,998	14,689,502	7,399,496
Total assets	29,138,264	20,084,631	9,053,633
Deferred Outflows of Resources:			
Deferred outflows related to pensions	60,202	356	59,846
Liabilities:			
Current liabilities (excluding debt)	2,132,845	984,644	1,148,201
Current debt	7,012,971	70,000	6,942,971
Noncurrent liabilities (excluding debt)	1,061,957	905,741	156,216
Noncurrent debt	2,990,000	3,070,000	(80,000)
Total liabilities	13,197,773	5,030,385	8,167,388
Deferred Inflows of Resources:			
Deferred inflows related to pensions	5,837	-	5,837
Net Position:			
Net investment in capital assets	12,086,027	11,549,502	536,525
Restricted	1,865,822	2,702,566	(836,744)
Unrestricted	2,043,007	802,534	1,240,473
Total net position	\$ 15,994,856	\$ 15,054,602	\$ 940,254

Financial Highlights
Statement of Activities Highlights

	Governmental Activities		
	2016	2015	Change
Program Revenues:			
Charges for services	\$ 3,236,450	\$ 3,150,481	\$ 85,969
Operating grants and contributions	18,852,032	16,444,383	2,407,649
Capital grants and contributions	499,710	928,546	(428,836)
General Revenues:			
Property taxes	36,934,263	35,853,547	1,080,716
Motor vehicle excise and other taxes	2,891,042	2,579,867	311,175
Penalties and interest on taxes	89,563	86,964	2,599
Nonrestricted grants	1,485,213	2,764,261	(1,279,048)
Unrestricted investment income	236,298	86,104	150,194
Gain on sale of capital asset	-	58,723	(58,723)
Miscellaneous	19,143	13,670	5,473
Total revenues	64,243,714	61,966,546	2,277,168
Expenses:			
General government	3,475,123	3,492,116	(16,993)
Public safety	3,763,561	3,932,356	(168,795)
Public works	3,556,579	3,596,416	(39,837)
Education	37,369,521	35,603,387	1,766,134
Health and human services	593,702	572,960	20,742
Culture and recreation	1,548,109	1,408,672	139,437
Employee benefits and insurance	15,481,961	12,479,375	3,002,586
State assessments	875,880	855,545	20,335
Interest	1,457,405	1,514,194	(56,789)
Total expenses	68,121,841	63,455,021	4,666,820
Contributions to permanent funds	21,075	17,100	3,975
Transfers	140,000	140,000	-
Change in net position	(3,717,052)	(1,331,375)	(2,385,677)
Net position - beginning of year	70,651,071	71,982,446	(1,331,375)
Net position - end of year	\$ 66,934,019	\$ 70,651,071	\$ (3,717,052)

	Business-Type Activities		
	2016	2015	Change
Program Revenues:			
Charges for services	\$ 2,507,842	\$ 2,030,214	\$ 477,628
Operating grants and contributions	-	37,519	(37,519)
General Revenues:			
Unrestricted investment income	163,745	28,090	135,655
Total revenues	2,671,587	2,095,823	575,764
Expenses:			
Sewer	1,591,333	1,545,529	45,804
Total expenses	1,591,333	1,545,529	45,804
Transfers	(140,000)	(140,000)	-
Change in net position	940,254	410,294	529,960
Net position - beginning of year	15,054,602	14,644,308	410,294
Net position - end of year	\$ 15,994,856	\$ 15,054,602	\$ 940,254

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$82,928,875 at the close of fiscal year 2016.

Net position of \$97,093,204 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position \$11,557,787 represents resources that are subject to external restrictions on how they may be used. The remaining balance consists of *unrestricted net position* (\$25,722,116).

At the end of the current fiscal year, the Town is able to report positive balances in two categories of net position and a negative balance in the unrestricted category in the governmental activities and for the government as a whole. The unrestricted governmental activities and government as a whole resulted in a negative balance mainly due to the accrual of the OPEB obligation and net pension liabilities that are required under GASB to be recognized in the Town's financial statements. These liabilities are presented on the statement of net position.

The business-type activities are able to report positive balances in all three categories of net position.

The governmental activities net position decreased by \$3,717,052 (5%) during the current fiscal year, which reflects the general fund's results of operation. The key elements of the decrease in net position for fiscal year 2016 was attributed to an increase in the net effect of capital asset activity (capitalization verses depreciation) of \$688 thousand, the repayment of debt and lease principal of \$2.5 million and in the change in deferred outflow/inflow of resources related to pensions of \$1.6 million; and from decreases in the change in the OPEB liability of approximately \$3.1 million and in the change of net pension liability of \$3.1 million.

There was an increase of \$940,254 (6%) in net position reported in connection with the sewer business-type activity.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, the *general fund unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$18,273,635 a decrease of \$3,051,090 (14%) in comparison with the prior year.

Breakdown of the governmental funds are as follows:

- Nonspendable fund balance – \$719,844 (4%)
- Restricted fund balance – \$6,826,133 (37%)
- Committed fund balance – \$2,490,985 (14%)
- Assigned fund balance – \$1,524,237 (8%)
- Unassigned fund balance – \$6,712,436 (37%)

Major Governmental Funds

At the end of the fiscal year, the General Fund reported a total fund balance of \$10,011,556 decreasing \$719,542 (7%) from the prior year. Of the \$10,011,556, the unassigned amount is \$6,712,436 (67%), the assigned amount is \$1,524,237 (15%), the committed amount is \$980,257 (10%) and the restricted amount is \$794,626 (8%). General fund revenues were \$3,722,903 (7%) more than the prior fiscal year and expenditures also increased by \$4,323,370 (8%). Other activities in the General Fund are net transfers to the nonmajor governmental funds of \$1,516,701 and a transfer in from the sewer business-type activity of \$140,000.

The main components of the change in general fund revenues as compared to the prior year are related to an increase property taxes in the amount of \$1,264,629 (4%), investment income of \$150,194 (174%) and in intergovernmental – “on-behalf” payments of \$1,739,130 (56%).

The major changes in general fund expenditures from the prior fiscal year were as follows:

- Increase in Education expenditures of \$2,116,220 (7%).
- Increase in Employee benefits and insurance of \$1,778,580 (20%).

Proprietary funds. The proprietary funds statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Fund

The *Sewer Fund* has accumulated a fund balance of \$15,994,856 used in the financing and operations of the Town's sewer system. The fund shows an increase of \$940,254 (6%) in total operations. This change is attributed to current operational revenues exceeding the current operational expenses by \$984,646, investment income of \$163,745, special assessments revenue of \$37,896, interest expense of \$106,033 and transfers to the general fund of \$140,000. Operating revenues increased by \$474,780 (24%), which is directly related to a rate increase, while operating expenses decreased by \$28,150 (2%) from the prior year.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2016 was \$54,725,413. This was an increase of \$2,385,777 (5%) over the previous year's budget.

There was an increase between the total original budget and the total final amended budget. The change is attributed to adjustments voted at various special town meetings for various budget operating line items.

General fund expenditures were less than budgeted by \$1,753,454. Of the \$1,753,454 in under budget expenditures, \$1,390,582 has been carried over to fiscal year 2017.

There is a negative variance in interest on taxes of \$14,078 as expectations (budget) were higher than the receipts.

A negative variance exists in State assessments of \$29,067 as the Town had a higher assessment in the school choice sending tuition than budgeted and lower assessments in special education and charter school sending tuition than budgeted.

The variance with the final budget was a positive \$1,092,998 consisting of a revenue surplus of \$730,126 and an appropriation surplus of \$362,872.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounts to \$122,476,107 and \$22,088,998, respectively.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

Major capital events during the current fiscal year in the governmental type funds included the following:

- Foreclosure property for \$16,161.
- Land purchase for \$70,000.
- Municipal center selectman's meeting room improvements for \$48,196.
- Town House improvements for \$3,061,066.
- Police radio upgrades for \$34,604.
- Police vehicle purchases for \$68,384.
- Fire Department vehicle purchase for \$66,008.
- Department of public works roof replacement for \$34,700.
- Department of public works vehicles and equipment for \$212,900.
- Road and sidewalk infrastructure improvements for \$1,553,795.
- School equipment for \$14,705.
- Elementary school improvements for \$621,265.
- Upton Street Park improvements for \$12,065.

Major capital events in the business-type funds included the following:

- Sewer Waste Water Treatment Plant improvements for \$7,827,385.

Debt. The Town's outstanding governmental debt as of June 30, 2016 totaled \$37,241,660 consisting of \$29,310,000 for the new high school, \$1,650,000 for the new fire station, \$225,000 for school modular classrooms, \$735,000 for land acquisition, \$4,245,000 for energy conservation projects, \$1,060,000 for the Town House restoration and \$16,660 for the Title V septic repair program.

The Town also has a capital lease for the financing of a fire department rescue truck. The lease is due in 2018. The Town currently owes \$252,746 on the lease consisting of \$243,930 in principal and \$8,816 in interest.

The business-type fund has \$3,070,000 in sewer debt.

The business-type activity currently has a \$6,932,971 in bond anticipation note outstanding.

Please refer to notes 3D, 3F, 3G and 3H for further discussion of the major capital assets and debt activity.

Next Year's Annual Town Meeting

The Town of Grafton operates under the "Open Meeting" concept where each voter has an equal vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2016 do not reflect the fiscal year 2017 Town Meeting action actions with the exception of the fund balance (free cash) and continuing appropriations amounts used to fund the budget. The Annual Town Meeting on May 9, 2016 authorized a fiscal year 2017 operating and capital budget as follows:

From the tax levy		\$ 52,587,790
From sewer receipts	\$ 1,419,963	
From sewer betterments	38,688	
From sewer retained earnings	499,686	1,958,337
From Other Available Funds:		
General Fund:		
Unassigned fund balance:		
Free cash	1,113,911	
Continuing Appropriations	30,159	1,144,070
Non-major Governmental Funds:		
Community preservation fund		555,844
		<u>\$ 56,246,041</u>

Requests for Information

This financial report is designed to provide a general overview of the Town of Grafton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, 30 Providence Road Grafton, Massachusetts.

BASIC FINANCIAL STATEMENTS

TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
CURRENT:			
Cash and Cash Equivalents	\$ 11,449,136	\$ 922,393	\$ 12,371,529
Investments	8,308,809	3,042,543	11,351,352
Receivables, net of allowance for uncollectibles:			
Property Taxes	210,890	-	210,890
Tax Liens	948,913	-	948,913
Excise Taxes	142,392	-	142,392
Departmental	34,789	-	34,789
User Charges	-	271,299	271,299
Special Assessments	-	96,421	96,421
Due from Other Governments	2,472,665	2,058,192	4,530,857
Total current assets	23,567,594	6,390,848	29,958,442
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Special Assessments	-	658,418	658,418
Capital Assets, net of accumulated Depreciation:			
Nondepreciable	25,985,190	10,483,685	36,468,875
Depreciable	96,490,917	11,605,313	108,096,230
Total noncurrent assets	122,476,107	22,747,416	145,223,523
Total Assets	146,043,701	29,138,264	175,181,965
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	1,766,038	60,202	1,826,240
LIABILITIES			
CURRENT:			
Warrants and Accounts Payable	1,000,825	2,089,128	3,089,953
Accrued Payroll	207,924	5,917	213,841
Retainage Payable	164,766	-	164,766
Payroll Withholdings	364,143	-	364,143
Tax Refund Payable	87,059	-	87,059
Accrued Interest	389,981	14,826	404,807
Other	87,520	-	87,520
Compensated Absences	229,650	22,974	252,624
Bond Anticipation Notes Payable	-	6,932,971	6,932,971
Bonds and Leases Payable	2,584,684	80,000	2,664,684
Total current liabilities	5,116,552	9,145,816	14,262,368
NONCURRENT:			
Compensated Absences	525,222	45,359	570,581
OPEB Obligation Payable	19,710,470	319,442	20,029,912
Net Pension Liability	20,451,337	697,156	21,148,493
Bonds and Leases Payable	34,900,906	2,990,000	37,890,906
Total noncurrent liabilities	75,587,935	4,051,957	79,639,892
Total Liabilities	80,704,487	13,197,773	93,902,260
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	171,233	5,837	177,070
NET POSITION			
Net Investment in Capital Assets	85,007,177	12,086,027	97,093,204
Restricted for:			
Capital Projects	149,296	240,706	390,002
Federal & State Grants	2,986,742	-	2,986,742
Community Preservation	1,003,966	-	1,003,966
Permanent Funds:			
Nonexpendable	719,844	-	719,844
Expendable	499,065	-	499,065
Other Purposes	4,333,052	1,625,116	5,958,168
Unrestricted	(27,765,123)	2,043,007	(25,722,116)
Total Net Position	\$ 66,934,019	\$ 15,994,856	\$ 82,928,875

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 3,475,123	\$ 426,589	\$ 782,543	\$ -
Public Safety	3,763,561	701,827	101,257	-
Public Works	3,556,579	432,711	141,771	499,710
Education	37,369,521	1,134,771	12,752,148	-
Health and Human Services	593,702	164,710	156,466	-
Culture and Recreation	1,548,109	369,882	68,157	-
Employee Benefits and Insurance	15,481,961	5,960	4,848,633	-
State Assessments	875,880	-	-	-
Interest	1,457,405	-	1,057	-
Total Governmental Activities	68,121,841	3,236,450	18,852,032	499,710

Business-Type Activities:				
Sewer	1,591,333	2,507,842	-	-
Total Primary Government	\$ 69,713,174	\$ 5,744,292	\$ 18,852,032	\$ 499,710

General Revenues:	
Property Taxes	
Motor vehicle excise and other taxes	
Penalties & Interest on Taxes	
Grants & Contributions not restricted to specific programs	
Unrestricted Investment Income	
Miscellaneous	
Contributions to Permanent Funds	
Transfers, net	
Total General Revenues, Contributions and Transfers	

Change in Net Position

Net Position:

Beginning of year

End of year

The Notes to the Financial Statements are an integral part of this Statement.

Net (Expenses) Revenues and Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
\$	(2,265,991)	\$ -	\$ (2,265,991)
	(2,960,477)	-	(2,960,477)
	(2,482,387)	-	(2,482,387)
	(23,482,602)	-	(23,482,602)
	(272,526)	-	(272,526)
	(1,110,070)	-	(1,110,070)
	(10,627,368)	-	(10,627,368)
	(875,880)	-	(875,880)
	(1,456,348)	-	(1,456,348)
	(45,533,649)	-	(45,533,649)

	-	916,509	916,509
	(45,533,649)	916,509	(44,617,140)

36,934,263	-	-	36,934,263
2,891,042	-	-	2,891,042
89,563	-	-	89,563
1,485,213	-	-	1,485,213
236,298	163,745	-	400,043
19,143	-	-	19,143
21,075	-	-	21,075
140,000	(140,000)	-	-
41,816,597	23,745	-	41,840,342

(3,717,052)	940,254	-	(2,776,798)
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70,651,071	15,054,602	-	85,705,673
\$ 66,934,019	\$ 15,994,856	\$ -	\$ 82,928,875

**TOWN OF GRAFTON, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 7,249,092	\$ 4,200,044	\$ 11,449,136
Investments	4,081,311	4,227,498	8,308,809
Receivables, net of allowance for uncollectibles:			
Property Taxes	210,074	816	210,890
Tax Liens	940,477	8,436	948,913
Excise Taxes	142,392	-	142,392
Departmental	1,200	33,589	34,789
Due from Other Governments	82,205	2,390,460	2,472,665
Total Assets	\$ 12,706,751	\$ 10,860,843	\$ 23,567,594
Liabilities:			
Warrants and Accounts Payable	\$ 743,359	\$ 257,466	\$ 1,000,825
Accrued Payroll	195,699	12,225	207,924
Retainage Payable	-	164,766	164,766
Payroll Withholdings	364,143	-	364,143
Tax Refund Payable	85,400	1,659	87,059
Other	87,520	-	87,520
Total Liabilities	1,476,121	436,116	1,912,237
Deferred Inflows of Resources:			
Unavailable Revenue	1,219,074	2,162,648	3,381,722
Fund Balance:			
Nonspendable	-	719,844	719,844
Restricted	794,626	6,031,507	6,826,133
Committed	980,257	1,510,728	2,490,985
Assigned	1,524,237	-	1,524,237
Unassigned	6,712,436	-	6,712,436
Total Fund Balance	10,011,556	8,262,079	18,273,635
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,706,751	\$ 10,860,843	\$ 23,567,594

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$ 36,594,409	\$ 381,715	\$ 36,976,124
Intergovernmental	12,483,276	2,363,797	14,847,073
Excise and Other Taxes	2,877,307	1,375	2,878,682
Charges for Services	-	1,988,456	1,988,456
Licenses, Permits, Fees	1,348,906	-	1,348,906
Interest on Taxes	88,922	641	89,563
Investment Income	236,298	240,985	477,283
Gifts and Donations	-	192,773	192,773
Other	-	324,337	324,337
Intergovernmental - "On-behalf" Payments	4,842,676	-	4,842,676
Total Revenues	58,471,794	5,494,079	63,965,873
Expenditures:			
Current:			
General Government	2,931,296	3,480,687	6,411,983
Public Safety	3,084,326	415,762	3,500,088
Public Works	3,007,391	1,649,101	4,656,492
Education	32,084,495	3,067,993	35,152,488
Health and Human Services	445,659	129,313	574,972
Culture and Recreation	892,429	370,713	1,263,142
Employee Benefits and Insurance	10,786,372	59,095	10,845,467
State Assessments	875,880	-	875,880
Debt Service:			
Principal	2,295,000	104,165	2,399,165
Interest	1,411,787	65,499	1,477,286
Total Expenditures	57,814,635	9,342,328	67,156,963
Excess of Revenues Over (Under) Expenditures	657,159	(3,848,249)	(3,191,090)
Other Financing Sources (Uses):			
Operating Transfers In	174,663	1,551,364	1,726,027
Operating Transfers Out	(1,551,364)	(34,663)	(1,586,027)
Total Other Financing Sources (Uses)	(1,376,701)	1,516,701	140,000
Net Change in Fund Balances	(719,542)	(2,331,548)	(3,051,090)
Fund Balances, Beginning of Year	10,731,098	10,593,627	21,324,725
Fund Balances, End of Year	\$ 10,011,556	\$ 8,262,079	\$ 18,273,635

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF GRAFTON, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
For the Year Ended June 30, 2016

Total Governmental Fund Balances		\$ 18,273,635
Capital Assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		122,476,107
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.		3,381,722
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions		1,594,805
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and Leases Payable	\$ (37,485,590)	
Other Post Employment Benefits Payable	(19,710,470)	
Net Pension Liability	(20,451,337)	
Compensated Absences	<u>(754,872)</u>	(78,402,269)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in the governmental funds interest is not reported until due.		<u>(389,981)</u>
Net Position of Governmental Activities		<u><u>\$ 66,934,019</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF GRAFTON, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (3,051,090)

The Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and are reported as depreciation expense:

Capital Outlay Purchases	\$ 5,813,849	
Depreciation	<u>(5,125,605)</u>	688,244

Revenue in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. 298,916

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Repayment of Debt and Lease Principal		2,550,824
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net Change in Compensated Absences	412,667	
Net Change in Other Post Employment Benefits	(3,120,816)	
Net Change in Net Pension Liability	(3,100,047)	
Net Change in Deferred Outflow/(Inflow) of Resources Related to Pensions	1,584,369	
Net Change in Accrued Interest on Long-Term Debt	<u>19,881</u>	<u>(4,203,946)</u>

Change in Net Position of Governmental Activities \$ (3,717,052)

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
(NON-GAAP) - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts					
	Amounts Carried Forward from Prior Year	Original Budget	Final Budget	Actual Budgetary Basis	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
Revenues:						
Property Taxes	\$ -	\$ 36,342,400	\$ 36,474,317	\$ 36,702,809	\$ -	\$ 228,492
Intergovernmental	-	12,311,799	12,311,799	12,483,276	-	171,477
Excise and Other Taxes	-	2,660,202	2,660,202	2,877,307	-	217,105
Licenses, Permits, Fees	-	1,229,274	1,229,274	1,348,906	-	119,632
Interest on Taxes	-	103,000	103,000	88,922	-	(14,078)
Investment Income	-	30,000	30,000	37,498	-	7,498
Total Revenues	-	52,676,675	52,808,592	53,538,718	-	730,126
Expenditures:						
Current:						
General Government	471,326	2,716,283	3,399,583	2,931,296	307,404	160,883
Public Safety	127,619	3,081,097	3,308,716	3,084,326	88,210	136,180
Public Works	637,675	2,929,020	3,514,157	3,007,391	487,901	18,865
Education	122,901	32,047,675	32,279,493	32,084,495	191,452	3,546
Health and Human Services	6,795	471,704	479,499	445,659	6,980	26,860
Culture and Recreation	21,536	917,938	1,236,594	892,429	308,635	35,530
Employee Benefits and Insurance	2,000	5,951,771	5,953,771	5,943,696	-	10,075
State Assessments	-	846,813	846,813	875,880	-	(29,067)
Debt Service:						
Principal	-	2,295,000	2,295,000	2,295,000	-	-
Interest	-	1,411,787	1,411,787	1,411,787	-	-
Total Expenditures	1,389,852	52,669,088	54,725,413	52,971,959	1,390,582	362,872
Excess of Revenues Over (Under) Expenditures	(1,389,852)	7,587	(1,916,821)	566,759	(1,390,582)	1,092,998
Other Financing Sources (Uses):						
Operating Transfers In	-	204,113	204,113	174,663	-	(29,450)
Operating Transfers (Out)	-	(1,545,000)	(1,595,000)	(1,595,000)	-	-
Total Other Financing Sources (Uses)	-	(1,340,887)	(1,390,887)	(1,420,337)	-	(29,450)
Net Change in Budgetary Fund Balance	(1,389,852)	(1,333,300)	(3,307,708)	(853,578)		\$ 1,063,548
Other Budgetary Items:						
Free Cash and Other Reserves	-	1,348,670	1,933,226			
Prior Year Deficits	-	(15,370)	(15,370)			
Prior Year Encumbrances	1,389,852	-	1,389,852			
Total Other Budgetary Items	1,389,852	1,333,300	3,307,708			
NET BUDGET	\$ -	\$ -	\$ -			

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF GRAFTON, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2016

	<u>Revenues</u>	<u>Expenditures</u>
Reported on a Budgetary Basis	\$ 53,538,718	\$ 52,971,959
<u>Adjustments:</u>		
Activity for Stabilization Funds Recorded in the General Fund for GAAP Purposes	198,800	-
Net Decrease in Revenue from recording Refund Taxes Payable	(85,400)	-
Recognition of Intergovernmental Revenue - "on behalf payments"	4,842,676	-
Recognition of Expenditures - "on behalf payments"	-	4,842,676
Net Decrease in Revenue from Recording 60-Day Receipts	(23,000)	-
Reported on a GAAP Basis	<u>\$ 58,471,794</u>	<u>\$ 57,814,635</u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	Business-Type Activities Enterprise Fund
	Sewer Fund
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 922,393
Investments	3,042,543
User Charges, net of allowance for uncollectibles	271,299
Special Assessments	96,421
Due from Other Governments	2,058,192
Total current assets	<u>6,390,848</u>
NONCURRENT:	
Special Assessments	658,418
Capital Assets, net of accumulated depreciation	
Nondepreciable	10,483,685
Depreciable	11,605,313
Total noncurrent assets	<u>22,747,416</u>
Total Assets	<u>29,138,264</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	<u>60,202</u>
LIABILITIES	
CURRENT:	
Accounts Payable	2,089,128
Accrued Payroll	5,917
Accrued Interest	14,826
Compensated Absences	22,974
Notes Payable	6,932,971
Bonds Payable	80,000
Total current liabilities	<u>9,145,816</u>
NONCURRENT:	
Compensated Absences	45,359
OPEB Obligation Payable	319,442
Net Pension Liability	697,156
Bonds Payable	2,990,000
Total noncurrent liabilities	<u>4,051,957</u>
Total Liabilities	<u>13,197,773</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	<u>5,837</u>
NET POSITION	
Net Investment in Capital Assets	12,086,027
Restricted for Betterments	1,625,116
Restricted for Capital	240,706
Unrestricted	2,043,007
Total Net Position	<u>\$ 15,994,856</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities Enterprise Fund
	Sewer Fund
Operating Revenues:	
Charges for Services	\$ 2,468,708
Other	1,238
Total Operating Revenues	2,469,946
Operating Expenses:	
Salaries & Wages	416,546
Operating Expenses	640,865
Depreciation	427,889
Total Operating Expenses	1,485,300
Operating Income (Loss)	984,646
Non-Operating Revenues (Expenses):	
Investment Income	163,745
Assessments	37,896
Interest Expense	(106,033)
Total Non-Operating Revenues (Expenses)	95,608
Income (Loss) Before Operating Transfers	1,080,254
Operating Transfers:	
Transfers In/(Out)	(140,000)
Total Operating Transfers	(140,000)
Change in Net Position	940,254
Net Position at Beginning of Year	15,054,602
Net Position at End of Year	\$ 15,994,856

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities Enterprise Fund
	Sewer Fund
Cash Flows From Operating Activities:	
Receipts from Customers and Users	\$ 2,427,381
Receipts from Other Revenues	1,238
Payments to Vendors	(556,644)
Payments to Employees	(424,419)
Net Cash Provided by (Used for) Operating Activities	1,447,556
Cash Flows from Noncapital Financing Activities:	
Transfers from (to) Other Funds	(140,000)
Net Cash Provided by (Used for) Noncapital Financing Activities	(140,000)
Cash Flows from Capital and Related Financing Activities:	
Assessments	222,203
MCWT Project Drawdowns	4,874,779
Acquisition and Construction of Capital Assets	(6,651,287)
Principal Payments on Bonds	(70,000)
Interest Expense	(108,071)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(1,732,376)
Cash Flows from Investing Activities:	
Investment Income	163,745
Proceeds/(Purchase) of Investments	(1,235,072)
Net Cash Provided by (Used for) Investing Activities	(1,071,327)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,496,147)
Cash and Cash Equivalents at Beginning of Year	2,418,540
Cash and Cash Equivalents at End of Year	\$ 922,393

**Reconciliation of Operating Income (Loss) to Net Cash
Provided by (Used For) Operating Activities:**

Operating Income (Loss)	\$ 984,646
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	427,889
Deferred (Outflows)/Inflows of Resources Related to Pensions	(54,009)
Change in Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	(14,551)
Increase (Decrease) in Accrued Payroll	(12,439)
Increase (Decrease) in Compensated Absences	4,566
Increase (Decrease) in OPEB Obligation Payable	47,105
Increase (Decrease) in Net Pension Liability	105,676
Decrease (Increase) in User Charges Receivable	(41,327)
Total Adjustments	462,910
Net Cash Provided by (Used for) Operating Activities	\$ 1,447,556

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	Other Post Employment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 7,546	\$ 326,409
Investments	2,950	356,502	3,395
Total Assets	2,950	364,048	329,804
LIABILITIES			
Warrants Payable	-	-	10,618
Due to Others	-	-	7,130
Due to Student Groups	-	-	103,499
Escrows and Deposits	-	-	208,557
Total Liabilities	-	-	329,804
NET POSITION			
Held in Trust for Other Purposes	\$ 2,950	\$ 364,048	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF GRAFTON, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Other Post Employment Benefits Trust Fund	Private Purpose Trust Funds
Additions		
Private Donations	\$ -	\$ 8,692
Investment Income	162	19,637
Total Additions	<u>162</u>	<u>28,329</u>
Deductions		
Educational Scholarships	-	7,768
Total Deductions	<u>-</u>	<u>7,768</u>
Change in Net Position	<u>162</u>	<u>20,561</u>
Net Position at Beginning of Year	<u>2,788</u>	<u>343,487</u>
Net Position at End of Year	<u><u>\$ 2,950</u></u>	<u><u>\$ 364,048</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Grafton, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town was incorporated in 1735 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. In fiscal year 2016, it was determined that no entities met the required GASB-39 and GASB-61 criteria for component units.

The Town is responsible for electing the governing board and/or committee members of the Grafton Housing Authority, the Grafton Water District, the South Grafton Water District and the Blackstone Valley Regional Vocational Technical High School. These related organizations are excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing the board members. Audited financial statements are available from the respective organizations. Descriptions of the related organizations are as follows:

Grafton Housing Authority – A public housing agency that provides housing assistance to eligible and qualified low and moderate income families, the elderly and handicapped. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The Town has no significant influence over management, budget or policies of the authority.

Grafton Water District and South Grafton Water District – Districts that provide water services to the residents of the Town. The districts are autonomous and self-sufficient units under the General Laws of the Commonwealth of Massachusetts. The Town has no significant influence over management, budget or policies of the districts.

Blackstone Valley Regional Vocational Technical High School – A regional school district made up of thirteen communities to serve and provide a learning environment in specific career areas. The regional school district is a separate entity under the Commonwealth of Massachusetts. The Town elects one district committee member for its representation. The District is responsible for both the operating and capital costs related to the school and operates independently from the Town.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (e.g., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and displayed in a single column.

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustment necessary to reconcile ending net position and the change in net position.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds),

and

- If the total assets, liabilities, revenues or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Proprietary and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's enterprise funds and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues of the various functions concerned.

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Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis concept, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to be used to pay current liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The Town reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

The *sewer fund* is used to account for the sewer activities.

The non-major governmental fund consists of other special revenue, capital projects and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

TOWN OF GRAFTON, MASSACHUSETTS
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Additionally, the Town reports the following fund types:

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government programs. The Town reports the following fiduciary funds:

The *Other Postemployment Benefit (OPEB) Trust Fund* is used to account for the assets held by the Town in trust for the payment of future retiree health insurance benefits. The assets of the OPEB Trust Fund cannot be used to support the Town's operations.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

Excluding the permanent funds, investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

Investment income from proprietary funds is maintained in those funds.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments to the Town. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U. S. Government or agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

All investments are carried at fair value.

F. Receivables

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

TOWN OF GRAFTON, MASSACHUSETTS
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Property Taxes, Deferred Property Taxes and Tax Liens

Property taxes are based on assessments as of January 1, 2015 and include betterments, special assessments and liens. Taxes are used to finance the operations of the Town for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The Town accepted the provisions of the Massachusetts General Laws Chapter 59, Section 57C which enables the Town to have a quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The Town mailed preliminary tax bills for fiscal year 2016 on June 30, 2015 and September 30, 2015 that were due on August 3, 2015 and November 2, 2015 and the actual tax bills were mailed on December 31, 2015 and March 31, 2016 and were due on February 1, 2016 and May 2, 2016.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a Town. The legal levy limit under Proposition 2 1/2 for fiscal year 2016 is as follows:

Legal Levy Limit Under Proposition	
2 1/2 for fiscal year 2016	\$ 33,054,015
Add: Debt Exclusion	3,209,587
Add: Road Stabilization override	1,500,000
	<u>\$ 37,763,602</u>

The total amount raised by taxation was \$36,724,456.

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

Excise Taxes

Excise taxes consist of motor vehicle excise and boat excise. Excise taxes are assessed annually for each vehicle and boat registered in the Town, and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the Town is responsible for determining the value of each boat.

The tax calculation for motor vehicle excise taxes is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

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Notes to the Financial Statements
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The allowance for uncollectibles is based on historical trends and specific account analysis.

User Charges

User charges and fees consist of sewer that is levied based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed each year and are included as a lien on the property owner's tax bill. Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

The allowance for uncollectibles is based upon historical trends and specific account analysis.

Departmental

Departmental receivables consist of police off-duty details and assessor's fees.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Special Assessments

Special assessments consist of sewer betterments in the business-type activities.

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

Due from Other Governments

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

G. Capital Assets

Capital assets of the primary government include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

All purchase and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and renovations	10-40
Machinery, equipment and other	3-15
Infrastructure	20-50

TOWN OF GRAFTON, MASSACHUSETTS
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The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

H. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

I. Deferred Outflows/Inflows of Resources

Government-wide financial statements

The government-wide financial statements *Statement of Net Position* includes a separate section, listed below total assets, for *deferred outflows of resources*. This represents the usage of net position applicable for future period(s) and will not be recognized as expenditures until the future period to which it applies. Currently, the only item in this category is *deferred outflows related to pensions*.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the only item in this category is *deferred inflows related to pensions*.

Fund financial statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting that qualifies in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for the Town's property, excise taxes; departmental revenue and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Net Position and Fund Balances

In the Governmental-Wide financial statements, the difference between the Town's total assets, deferred outflows of resources, total liabilities and deferred inflows to revenues represents net position. Net position displays three components – net investment in capital assets; restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net position represents the net position available for future operations.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

TOWN OF GRAFTON, MASSACHUSETTS
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Year Ended June 30, 2016

Net position has been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Federal and state grants" - represents amounts restricted by the federal and state government for various programs.

"Community preservation fund" represents amounts that are restricted for the preservation of open space, historical resources and community housing.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other purposes" represents restrictions placed on assets from outside parties.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which is the Town meeting action and can be modified or rescinded only through these actions. Committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit.

Assigned fund balance. This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. Department heads and Town board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the Town's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

K. Long-term Debt

Long-term debt of the primary government is reported as liabilities in the government-wide statement of net position.

The face amount of governmental funds long-term debt is reported as other financing sources.

L. Compensated Absences

The Town grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay.

M. Pension Benefits

For purposes of measuring the net position liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Worcester Regional Retirement System (the System) and the Massachusetts Teachers Retirement System (MTRS) are provided. Additions to and deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the system. For this purpose, benefit payments (including refunds of employee contributions), are recognized when due and payable according with the benefit terms. Investments are reported at their fair value.

N. Post Retirement Benefits

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50% to 73% share of insurance premiums for retirees, spouses and surviving spouses in the general fund in the fiscal year paid.

O. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the Town's General Fund. Although legislative approval is required for the acceptance of grants, capital projects, and borrowing authorizations, annual budgets are not prepared for any other fund; therefore, comparison of budget to actual is only presented for the General Fund.

The Town must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non-property tax revenues estimated to be received, including available funds.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

The Town follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

- Requests for appropriation are submitted by departments to the Finance Committee.
- Finance committee meets with various departments to discuss the appropriation.
- Finance committee recommends the budget and presents the budget at the annual Town meeting.
- The budget is legally enacted by vote at the annual Town meeting.
- Supplemental appropriations may be made from available funds after the setting of the tax rate with Town meeting approval.
- Throughout the year appropriations may be transferred between departments with Town meeting approval.

Massachusetts law requires cities and towns to provide for a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

For fiscal year 2016, the Town incurred a final budget deficit of \$3,307,708 for the General Fund.

The Town voted from the following sources to fund the deficit budget during the fiscal year:

Unassigned fund balance:	
Free cash votes	\$ 1,643,226
Overlay surplus	290,000
Reserve for deficits	(15,370)
Prior year's encumbrances	1,389,852
	<u>\$ 3,307,708</u>

3. DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risks – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2016 were \$14,813,987. Of these, \$757,145 are exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policies

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
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The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

As of June 30, 2016, the Town had the following investments:

Investment Type	Fair Value	(in Years)	
		Less Than 1	1 to 5
Debt Securities:			
U. S. treasury obligations	\$ 1,419,164	\$ -	\$ 1,419,164
U. S. government agencies	3,286,857	-	3,286,857
Corporate bonds	1,742,291	-	1,742,291
Money market mutual fund	104,581	104,581	-
	6,552,893	\$ 104,581	\$ 6,448,312
Other Investments:			
Certificates of deposits	1,691,155		
Equity mutual funds	560,370		
Equity securities - domestic	2,443,506		
MMDT	466,276		
	\$ 11,714,200		

Custodial Credit Risks

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's \$11,714,200 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Town's name. The Town has no policy on custodial credit risk.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

Credit Risk

The Town's exposure to credit risk as of June 30, 2016 is as follows:

Related Debt Instruments	Fair Value
Moody's Quality Ratings	
<i>U. S. Treasury Obligations:</i>	
Aaa	\$ 1,419,164
<i>U. S. Government Agencies:</i>	
Aaa	3,286,857
<i>Corporate Bonds:</i>	
A1	277,744
A2	342,782
Baa1	1,121,765
<i>Money Market Mutual Funds:</i>	
Not rated	104,581
	\$ 6,552,893

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in one issuer. More than 5 percent of the Town's investments are Federal Home Loan Mortgage Corp. amounting to 26.35% of the Town's total investments.

B. Receivables

At June 30, 2016, receivables for the individual major governmental funds, non-major governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts of the primary government, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and non-major governmental funds:			
Property taxes including community preservation surcharge	\$ 229,300	\$ (18,410)	\$ 210,890
Tax liens	948,913	-	948,913
Excise taxes	170,465	(28,073)	142,392
Departmental	34,789	-	34,789
Due from other governments	2,472,665	-	2,472,665
	\$ 3,856,132	\$ (46,483)	\$ 3,809,649

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

At June 30, 2016, receivables for the business-type activities consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Sewer activities:			
User charges	\$ 282,002	\$ (10,703)	\$ 271,299
Special assessments	754,839	-	754,839
Due from other governments	2,058,192	-	2,058,192
	<u>\$ 3,095,033</u>	<u>\$ (10,703)</u>	<u>\$ 3,084,330</u>

The composition of amounts due from other governments as of June 30, 2016 for governmental funds and the business-type activities are as follows:

Governmental Funds:

General Fund:

Commonwealth of Massachusetts:

Department of Revenue:

Veterans, blind and surviving spouse \$ 19,398

Department of Veterans Services:

Veterans benefits 62,807 \$ 82,205

Nonmajor Governmental Funds:

U. S. Department of Agriculture:

School lunch 12,386

U. S. Department of Education:

School title grants 45,582

U. S. Department of Homeland Security

Emergency management agency grants 4,460

Commonwealth of Massachusetts:

Department of Elementary and Secondary Education:

School lunch 1,229

Executive Office of Public Safety & Homeland Security:

Public safety grants 9,732

Massachusetts Department of Transportation:

Highway Department - Chapter 90 funds 2,317,071 2,390,460

\$ 2,472,665

Business-Type Funds:

Sewer Fund:

Commonwealth of Massachusetts:

Massachusetts Clean Water Trust:

Sewer project \$ 2,058,192

C. Deferred Inflows of Resources – Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
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fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

Governmental Funds:

General fund:

Property taxes	\$	86,074		
Tax liens		940,477		
Excise taxes		142,392		
Departmental		1,200		
Due from other governments		48,931	\$	1,219,074

Nonmajor governmental funds:

Property taxes	(843)			
Tax liens	8,436			
Due from other governments	2,155,055		2,162,648	
		<u>\$</u>		<u>3,381,722</u>

D. Capital Assets

Capital asset activity for the year ended June 30, 2016, is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 15,786,267	\$ 86,161	\$ -	\$ 15,872,428
Construction in Progress	7,006,641	3,106,121	-	10,112,762
Total capital assets not being depreciated	22,792,908	3,192,282	-	25,985,190
Capital assets being depreciated:				
Buildings and Renovations	118,901,500	738,765	-	119,640,265
Machinery, equipment and other	7,227,989	361,997	(24,724)	7,565,262
Infrastructure	9,026,542	1,520,805	-	10,547,347
Total capital assets being depreciated	135,156,031	2,621,567	(24,724)	137,752,874
Less accumulated depreciation for:				
Buildings and Renovations	27,874,903	4,161,352	-	32,036,255
Machinery, equipment and other	5,426,684	476,806	(24,724)	5,878,766
Infrastructure	2,859,489	487,447	-	3,346,936
Total accumulated depreciation	36,161,076	5,125,605	(24,724)	41,261,957
Total capital assets being depreciated, net	98,994,955	(2,504,038)	-	96,490,917
Total governmental activities capital assets, net	\$ 121,787,863	\$ 688,244	\$ -	\$ 122,476,107

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

Business-Type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Construction in Progress	\$ 2,656,300	\$ 7,827,385	\$ -	\$ 10,483,685
Total capital assets not being depreciated	2,656,300	7,827,385	-	10,483,685
Capital assets being depreciated:				
Machinery, equipment and other	234,873	-	-	234,873
Infrastructure	32,021,084	-	-	32,021,084
Total capital assets being depreciated	32,255,957	-	-	32,255,957
Less accumulated depreciation for:				
Machinery, equipment and other	192,700	18,429	-	211,129
Infrastructure	20,030,055	409,460	-	20,439,515
Total accumulated depreciation	20,222,755	427,889	-	20,650,644
Total capital assets being depreciated, net	12,033,202	(427,889)	-	11,605,313
Total governmental activities capital assets, net	\$ 14,689,502	\$ 7,399,496	\$ -	\$ 22,088,998

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 255,065
Public safety	565,171
Public works	725,472
Education	3,277,505
Health and human services	13,533
Culture and recreation	288,859
Total depreciation expense - governmental activities	<u>\$ 5,125,605</u>

Business-Type Activities:

Sewer fund	<u>\$ 427,889</u>
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E. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2016, are summarized below:

Transfers In:	Transfers Out:			
	General fund	Nonmajor Governmental fund	Business-type fund	Total
General fund	\$ -	\$ 34,663	\$ 140,000	\$ 174,663
Nonmajor governmental funds	1,551,364	-	-	1,551,364
Total transfers out	<u>\$ 1,551,364</u>	<u>\$ 34,663</u>	<u>\$ 140,000</u>	<u>\$ 1,726,027</u>

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

F. Leases

The Town has entered into a lease agreement as lessee for financing a rescue truck for the fire department. The lease agreements qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Asset:	Governmental Activities
Machinery, Equipment and Other	\$ 727,340
Less: Accumulated Depreciation	(193,285)
Total	<u>\$ 534,055</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2016, are as follows:

Year Ending June 30,	Governmental Activities
2017	\$ 126,373
2018	126,373
Total minimum lease payments	252,746
Less: amount representing interest	(8,816)
Present value of minimum lease payments	<u>\$ 243,930</u>

G. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the Town is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the business type fund are as follows:

Business-type Activities						
Purpose	Interest Rate	Final Maturity Date	Balance July 1, 2015	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2016
Bond anticipation notes:						
Sewer Fund						
Massachusetts Clean						
Water Trust - Interim Loan						
CWP - 15 - 14	0.13%	12/31/2017	\$ -	\$ 6,932,971	\$ -	\$ 6,932,971

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

H. Long Term Debt

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding of the governmental type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2016
Governmental Activities:					
Inside Debt Limit:					
New Fire Station	4.25%	10/15/2008	6/15/2019	5,500,000	\$ 1,650,000
Land Acquisition - CPA	3.73%	5/15/2009	2/15/2029	1,155,000	735,000
School - Modular Classrooms	2.86%	5/15/2009	2/15/2019	750,000	225,000
New High School	3.47%	5/1/2010	2/1/2030	9,100,000	6,865,000
New High School	4.24%	4/1/2011	4/1/2031	10,000,000	8,220,000
New High School	3.03%	4/12/2012	4/1/2032	16,650,000	14,225,000
Energy Conservation	2.0-3.0%	11/13/2013	2/15/2028	4,767,000	4,245,000
Town House Restoration	2.58%	4/15/2015	11/15/2034	1,100,000	1,060,000
Total inside debt					<u>37,225,000</u>
Outside Debt Limit:					
Massachusetts Clean Water Trust:					
Title V septic repair program	N/A	9/29/2000	8/1/2019	79,932	16,660
Total governmental type debt					<u>\$ 37,241,660</u>

Future Debt Service

The annual principal and interest payments to retire all governmental type long term debt outstanding as of June 30, 2016, are as follows:

Year	Principal	Interest	Total
2017	\$ 2,464,165	\$ 1,389,940	\$ 3,854,105
2018	2,524,165	1,301,451	3,825,616
2019	2,584,165	1,210,212	3,794,377
2020	2,029,165	1,103,527	3,132,692
2021	2,095,000	1,025,887	3,120,887
2022-2026	11,740,000	3,874,150	15,614,150
2027-2031	12,395,000	1,620,169	14,015,169
2032-2035	1,410,000	62,125	1,472,125
	<u>\$ 37,241,660</u>	<u>\$ 11,587,461</u>	<u>\$ 48,829,121</u>

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

General obligation bonds currently outstanding of the business-type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2016
Business-type Activities:					
Inside Debt Limit:					
Sewer Fund:					
Sewer	4.24%	4/1/2011	4/1/2031	\$ 510,000	\$ 420,000
Sewer Treatment Facility	3.03%	4/15/2015	11/15/2044	2,700,000	2,650,000
Total business-type debt					<u>\$ 3,070,000</u>

The annual principal and interest payments to retire all business-type long-term debt outstanding as of June 30, 2016, are as follows:

Year	Principal	Interest	Total
2017	\$ 80,000	\$ 99,319	\$ 179,319
2018	80,000	97,319	177,319
2019	80,000	95,319	175,319
2020	90,000	93,068	183,068
2021	90,000	90,519	180,519
2022-2026	490,000	403,919	893,919
2027-2031	590,000	308,419	898,419
2032-2036	480,000	217,156	697,156
2037-2041	565,000	135,637	700,637
2042-2046	525,000	36,028	561,028
	<u>\$ 3,070,000</u>	<u>\$ 1,576,703</u>	<u>\$ 4,646,703</u>

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

A summary of the changes in governmental activities and business-type long-term liabilities during the year is as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due within One Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 39,620,000	\$ -	\$ 2,395,000	\$ 37,225,000	\$ 2,460,000
Massachusetts Clean Water Trust bonds	20,825	-	4,165	16,660	4,165
Capital leases	395,589	-	151,659	243,930	120,519
Compensated absences	1,167,539	52,729	465,396	754,872	229,650
OPEB liability obligation	16,589,654	3,120,816	-	19,710,470	-
Net pension liability	17,351,290	3,100,047	-	20,451,337	-
Governmental activity Long-term liabilities	<u>\$ 75,144,897</u>	<u>\$ 6,273,592</u>	<u>\$ 3,016,220</u>	<u>\$ 78,402,269</u>	<u>\$ 2,814,334</u>
Business-type activities:					
Bond Payable:					
General obligation bonds	\$ 3,140,000	\$ -	\$ 70,000	\$ 3,070,000	\$ 80,000
Compensated absences	63,767	4,566	-	68,333	22,974
OPEB obligation payable	272,337	47,105	-	319,442	-
Net pension liability	591,480	105,676	-	697,156	-
Total sewer activities Long-term liabilities	<u>\$ 4,067,584</u>	<u>\$ 157,347</u>	<u>\$ 70,000</u>	<u>\$ 4,154,931</u>	<u>\$ 102,974</u>

Massachusetts Clean Water Trust (MCWT)

The Town is subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$79,932 and interest costs of \$38,712 which the Town has borrowed from MCWT. The gross amount outstanding at June 30, 2016 for principal and interest combined for the loans is \$18,539 with subsidies amounting to \$1,879. The net repayments, including interest, are scheduled to be \$16,660. Since the Town is legally obligated for the total amount of the debt, such amounts for the gross principal have been recorded on the financial statements. The fiscal year 2016 principal and interest subsidies totaled \$1,057.

Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws a Town may authorize indebtedness up to a limit of five percent of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2016 totaled \$40,295,000.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

The following is a computation of the legal debt limit as of June 30, 2016:

Equalized Valuation-Real Estate and Personal Property (2014)		<u>\$ 2,278,097,900</u>
Debt Limit: 5 % of Equalized value		113,904,895
Total Debt Outstanding	\$ 40,311,660	
Less: Debt Outside Debt Limit	<u>(16,660)</u>	<u>40,295,000</u>
Inside Debt Excess Borrowing Capacity at June 30, 2016		<u>\$ 73,609,895</u>

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts a Town must authorize debt at a Town meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or Town meeting votes to rescind the authorized debt.

Loan authorizations that have not been issued as of June 30, 2016 and are not reflected in the Town's financial statements are as follows:

Date Town Meeting Authorized	Purpose	Amount
10/20/2014	Wastewater Treatment Facility upgrades	<u>\$ 39,367,029</u>

Overlapping Debt

The Town pays assessments; which includes debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long term debt of the governmental unit, the estimated share of such debt being serviced by the Town and the total of its share of estimated indirect debt.

	Current Year's Long Term Debt	Town's Estimated Share	Town's Estimated Indirect Debt
Blackstone Valley Regional Vocational Technical High School	<u>\$ 3,500,000</u>	10.80%	<u>\$ 378,000</u>

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

I. Fund Balances

The following is a summary of the Town's Governmental fund balances at the year ended June 30, 2016:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Permanent funds	\$ -	\$ 719,844	\$ 719,844
Restricted:			
Federal, state and local grants	-	156,474	156,474
School federal and state grants	-	675,212	675,212
School revolving funds	-	571,541	571,541
Town revolving funds	-	1,210,026	1,210,026
Donations and gifts	-	240,303	240,303
Community preservation fund	-	996,373	996,373
Debt service	794,626	-	794,626
Capital projects	-	149,296	149,296
Permanent funds	-	499,066	499,066
Other	-	1,533,216	1,533,216
	<u>794,626</u>	<u>6,031,507</u>	<u>6,826,133</u>
Committed:			
Capital projects	-	1,510,728	1,510,728
Town meeting articles	980,257	-	980,257
	<u>980,257</u>	<u>1,510,728</u>	<u>2,490,985</u>
Assigned:			
Encumbrances	410,326	-	410,326
Subsequent year's budget	1,113,911	-	1,113,911
	<u>1,524,237</u>	<u>-</u>	<u>1,524,237</u>
Unassigned:			
General Fund	<u>6,712,436</u>	<u>-</u>	<u>6,712,436</u>
Total Governmental fund balances	<u>\$ 10,011,556</u>	<u>\$ 8,262,079</u>	<u>\$ 18,273,635</u>

J. Special Trust Funds

Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a Town at a Town meeting for any lawful purpose.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

At June 30, 2016 the balances in the stabilization funds are reported in the General Fund as unassigned fund balance consisting of the following:

General purpose stabilization fund	\$ 3,493,903
Capital stabilization fund	119,453
Road stabilization fund	41
	<hr/>
	\$ 3,613,397
	<hr/>

4. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Litigation

There are pending lawsuits against the Town at June 30, 2016. Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016. The outcome of lawsuits is not expected to materially affect the financial condition of the Town.

Federal Financial Assistance

The Town receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the Town.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the Town.

C. Pension Plan

Plan Description

The Town is a member of the Worcester Regional Retirement System (the System). The System is a cost-sharing multiple-employer public employee retirement system administered by the Worcester Regional Retirement Board (the Board). Massachusetts General Laws (MGL), Chapter 32, assigns authority to establish the System and amend benefit provisions of the plan; which is regulated by the Public Employees Retirement Administration Commission (PERAC). The System is a defined benefit pension plan that covers substantially all employees of its member employers except for current and retired teachers. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan, to which the Town does not contribute. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for the contributions and future benefit requirements of the MTRS.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is responsible by statute to make all actuarially determined contributions and future benefit requirements on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in the MTRS. Since the Town does not contribute directly to MTRS, there is no pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based upon each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The Town's portion of the collective pension expense contributed by the Commonwealth of \$4,842,676 on-behalf payments for the fiscal year ending June 30, 2016 is reported as intergovernmental revenues and insurance and employee benefits expenditures in the General Fund as of the measurement date.

Benefits Provided

Both the System and MTRS provide retirement, disability, and death benefits to plan members and beneficiaries. Members become vested after 10 years of creditable service and are eligible for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) final average compensation times the member's years of creditable service prior to retirement. The percentage is based on the age of the member at retirement and his or her Group classification. The authority for amending these provisions rests with the Massachusetts Legislature.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost of living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's State law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions

MGL Chapter 32 governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The Town's proportionate share of the required contribution to the System for the year ended December 31, 2015 was \$1,340,346, representing 14.93% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

Pension Liability

As of June 30, 2016, the Town reported a liability of \$21,148,493 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2015, the Town's proportional percentage was 2.9795%, which was a slight decrease from the last measurement.

Pension Expense

For the year ended June 30, 2016, the Town recognized a pension expense of \$2,907,689 and reported deferred outflows of resources related to pensions of \$1,826,240 and deferred inflows of resources related to pensions of \$177,070, from the net difference between projected and actual investment earnings on pension plan investments. Since the System performs an actuarial valuation bi-annually, there are no reported differences between the expected and actual experience or a change of assumptions as of December 31, 2015.

The Town's net deferred outflows of resources related to pensions will be recognized in the pension expense as follows;

For years ended June 30,		
	2017	\$ 378,728
	2018	378,728
	2019	378,728
	2020	376,320
	Thereafter:	136,666
		<u>\$ 1,649,170</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement that was updated December 31, 2015;

Valuation date	January 1, 2014
Actuarial cost method	Entry Age Normal
Amortization method	<i>Unfunded Actuarial Accrued Liability (UAAL):</i> Increasing dollar amount at 4.0% to reduce the UAAL to zero on or before June 30, 2035. <i>2002 & 2003 Early Retirement Incentive (ERI):</i> Increasing dollar amount at 4.5% to reduce the 2002 & 2003 ERI to zero on or before June 30, 2028. <i>2010 Early Retirement Incentive (ERI):</i> Increasing dollar amount to reduce the 2010 ERI to zero on or before June 30, 2022.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

Remaining amortization period	21 years, except for ERI for 2002 and 2003 (14 years) and 2010 (8 years)
Asset valuation method	The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: 80% of the gains and losses of the prior year, 60% of the gains and losses of the second prior year, 40% of the gains and losses of the third prior year, and 20% of the fourth prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 80% or more than 120% of market value.
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Projected salary increase	3.0% per year, including longevity
Inflation	Not explicitly assumed
Mortality rates	RP-2000 Mortality Table Projected to 2014 with Scale AA RP-2000 Mortality Table set forward two years for disabled members

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	40%	8.02%
Fixed income	23%	5.09%
Private Equity	10%	9.50%
Real Estate	10%	6.50%
Timber/Natural Resources	4%	7.07%
Hedge Funds	9%	6.50%
Other	4%	6.18%
Total	100%	

Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 0.05%. The money-weighted rate of return considers the changing amounts actually invested during a period and weighs the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the pension plan investments to the ending fair value of pension plan investments.

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with Section 22D and Section 22F of MGL Chapter 32. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments or current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75%. As well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Town's net pension liability	\$ 25,463,086	\$ 21,148,493	\$ 17,484,903

D. Other Post Employment Benefits Payable

GASB Statement No. 45

The cost of post-employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The Town adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009, and thus recognizes the cost of post-employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the Town's future cash flows.

Plan Description

In addition to providing pension benefits as described on the following footnote, the Town provided post-employment health care and life insurance benefits for retired employees, their dependents and beneficiaries. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. As of the actuarial valuation date, there are approximately 836 active and retired employees that meet the eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

The contribution requirements of plan members and the Town are established and may be amended through Town policy and member contracts. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2016 fiscal year, total Town premiums plus implicit costs for the retiree medical program are \$1,250,577.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Town's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation to the plan:

	Governmental Activities	Business-type Activities	Total
Normal Cost	\$ 2,271,877	\$ 24,995	\$ 2,296,872
Amortization of unfunded actuarial accrued liability	2,214,013	26,104	2,240,117
Annual required contribution	4,485,890	51,099	4,536,989
Interest on net OPEB obligation	663,586	10,893	674,479
Adjustment to annual required contribution	(780,163)	(12,807)	(792,970)
Annual OPEB cost (expense)	4,369,313	49,185	4,418,498
Contributions made during the fiscal year	(1,248,497)	(2,080)	(1,250,577)
Increase in net OPEB obligation	3,120,816	47,105	3,167,921
Net OPEB Obligation - beginning of year	16,589,654	272,337	16,861,991
Net OPEB Obligation - end of year	<u>\$ 19,710,470</u>	<u>\$ 319,442</u>	<u>\$ 20,029,912</u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2016 fiscal year and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 4,418,498	28.3%	\$ 20,029,912
6/30/2015	\$ 4,158,239	27.4%	\$ 16,861,991
6/30/2014	\$ 3,081,984	35.1%	\$ 13,841,341

Funded Status and Funding Process

As of January 1, 2015, the most recent valuation date, the plan was 0.01% funded. The actuarial liability for benefits was \$44,712,250, and the actuarial value of assets was \$2,755, resulting in an unfunded actuarial accrued liability (UAAL) of \$44,709,495. The covered payroll (annual payroll of active employees covered by the plan) was \$27,931,000, and the ratio of the UAAL to the covered payroll was 160.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of

TOWN OF GRAFTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2016

each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Town OPEB actuarial valuation as of January 1, 2015, used the projected unit credit cost method. The OPEB liability is currently unfunded and the actuarial assumptions include a 4.00% rate of return on invested assets. Medical and drug cost trend for Commercial Managed Care, Commercial Indemnity, Medicare Managed Care, and Medicare Indemnity in 2016 was 6.04%, 4.10%, .08% and 4.49%, respectively, and 8%, 9%, 7% and 8% in 2016, respectively, decreasing .5% for five years to an ultimate level of 5% per year for Commercial Managed Care, Commercial Indemnity, Medicare Managed Care, and Medicare Indemnity.

The unfunded actuarial accrued liability is being amortized over closed 24 years (remainder of the initial 30 years) on a projected unit cost basis. The remaining amortization period at June 30, 2016 is 23 years.

Trust Fund

The Town did establish a trust fund in fiscal year 2011 in order to contribute funds to reduce the future OPEB liability. As of June 30, 2016 the trust balance is \$2,950.

E. Implementation Of New GASB Pronouncements

The GASB issued Statement No. 72, *Fair Value Measurement and Application*, for implementation in 2016.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, for implementation in 2016.

F. Future GASB Pronouncements

Management is currently assessing the impact the implementation of the following pronouncements will have on the basic financial statements.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*, for implementation in fiscal year 2017.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF GRAFTON, MASSACHUSETTS
Required Supplementary Information
Pension Plan Schedules
Worcester Regional Contributory Retirement System
For the Year Ended June 30, 2016

The Schedule of Proportionate Share of the Net Pension Liability represents multiyear trend information relating to the Town's proportion of the net pension liability and related ratios.

Schedule of the Town's Proportionate Share of the Net pension Liability:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Town's proportion of the net pension liability (asset)	2.9795%	3.0152%
Town's proportionate share of the net pension liability (asset)	\$ 21,148,493	\$ 17,942,770
Town's covered employee payroll	\$ 8,975,245	\$ 8,630,043
Net pension liability percentage of covered-employee payroll	235.63%	207.91%
Plan fiduciary net position as a percentage of the total pension liability	44.52%	47.94%

Note: these schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

TOWN OF GRAFTON, MASSACHUSETTS
Required Supplementary Information
Pension Plan Schedules
Worcester Regional Retirement System
For the Year Ended June 30, 2016

The Schedule of the Employer Contributions presents multiyear trend information on the Town's required and actual payments to the pension plan and related ratios.

Schedule of the Town's Contributions:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarially determined contribution	\$ 1,340,346	\$ 1,191,597
Less: Contributions in relation to the actuarially determined contribution	<u>(1,340,346)</u>	<u>(1,191,597)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Town's covered employee payroll	\$ 8,975,245	\$ 8,630,043
Contributions percentage of covered-employee payroll	14.93%	13.81%

Note: these schedules are intendend to present information for 10 years.
Until a 10-year trend is compiled, the information is presented for those
years the information is available.

TOWN OF GRAFTON, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Other Post-Employment Benefit Plan Schedule
Year Ended June 30, 2016

Schedule of Funding Progress

Other Post-Employment Benefits (Dollars in Thousands)								
Actuarial Valuation Date	Actuarial Value of Assets (A)		Actuarial Accrued Liability (AAL) Entry Aid (B)		Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2015	\$	3	\$ 44,712	\$	44,709	0%	\$ 27,931	160.1%
1/1/2013	\$	-	\$ 30,633	\$	30,633	0%	\$ 24,618	124.4%
1/1/2011	\$	-	\$ 30,345	\$	30,345	0%	\$ 23,701	128.0%

Schedule of Contribution Funding

Other Post-Employment Benefits				
Fiscal Year Ended June 30		Annual OPEB Cost		Actual Contributions Made
2016	\$	4,418,498	\$	1,250,577
2015	\$	4,158,239	\$	1,137,589
2014	\$	3,081,984	\$	1,082,235

The information presented in the above Required Supplementary Schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the Notes to Basic Financial Statements.

Actuarial Methods:

Valuation date	January 1, 2015
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Closed 24-year amortization payments (remainder of initial 30-year amortization). Uses level percentage of payroll (using a 3.25% annual rate of increase).
Remaining amortization period	24 years remaining as of June 30, 2015

Actuarial Assumptions:

Investment rate of return	4.0% per year on invested assets
Medical/drug cost trend rate	Ranging from .08% to 6.04% in 2016 trending down to an ultimate rate of 5.0% per year for all coverages.

Plan Membership:

Current active members	549
Current retirees, beneficiaries and dependents	287
Total	836

SUPPLEMENTARY SCHEDULES

TOWN OF GRAFTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Fund Balances		Revenues		Expenditures		Other Financing Sources (Uses)		Fund Balances
	July 1, 2015								June 30, 2016
Special Revenue:									
Federal and State Grants:									
School Grants	\$	63,505	\$	983,704	\$	1,027,565	\$	-	\$ 19,644
Arts Lottery Council Grants		6,115		5,013		2,308		-	8,820
Council on Aging Grants		-		25,938		9,478		(16,460)	-
Extended Polling Hours		-		1,823		1,823		-	-
Health Grants		44,606		45,494		30,921		-	59,179
Highway Grants		-		162,016		162,016		-	-
Library Grants		42,402		29,396		19,127		-	52,671
Other Grants and Programs		-		19,550		500		-	19,050
Planning Grants		5,746		6,708		6,708		-	5,746
Public Safety Grants		(1,414)		84,137		71,715		-	11,008
Schools:									
School Lunch Revolving		127,160		766,557		815,270		-	78,447
School Lunch Commodities		-		52,989		52,989		-	-
Privately Funded Grants		2,057		575		2,488		-	144
School Choice		242,521		286,180		218,458		-	310,243
School Revolving Accounts		501,757		579,851		588,515		-	493,093
State Special Education Reimbursement Fund		351,874		341,531		348,224		-	345,181
Other:									
Animal Damage Reserve Fees		20,928		2,644		-		-	23,572
Commission on Disability Parking Fines		600		-		-		-	600
Community Preservation Fund		2,047,584		578,898		1,630,109		-	996,373
Conservation Fees		200,603		19,062		25,056		-	194,609
Council on Aging Revolving for Transportation		42,822		24,138		36,227		12,295	43,028
Fire Detail		4,313		7,039		5,416		(2,350)	3,586
Gifts and Donations		634,222		192,673		590,757		4,165	240,303
Health Department Revolving		11,000		19,799		24,619		-	6,180
Home Composting Bins Revolving		4,150		100		-		-	4,250
Insurance Recovery		-		19,084		18,477		-	607
Law Enforcement Fund		6,284		249		150		-	6,383
Other Programs		-		2,500		2,500		-	-
PEG Access/Verizon		508,105		283,204		215,146		-	576,163
Total Special Revenue Page 61	\$	4,866,940	\$	4,540,852	\$	5,906,562	\$	(2,350)	\$ 3,498,880

TOWN OF GRAFTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Fund Balances July 1, 2015	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2016
Continued from Page 61	\$ 4,866,940	\$ 4,540,852	\$ 5,906,562	\$ (2,350)	\$ 3,498,880
Other (Continued):					
Library Grafton Education Association Grant	1,684	400	1,777	-	307
Municipal Waterways Revolving Funds	12,068	1,375	-	-	13,443
Municipal Center Use Revolving	-	376	-	-	376
Old Town Hall Revolving	28,687	33,981	38,899	-	23,769
Planning Board Revolving	81,394	60,435	61,243	-	80,586
Police Outside Detail	-	293,278	293,278	-	-
Recreation Revolving	130,429	321,953	257,563	(32,313)	162,506
Sale of Cemetery Lots	53,996	7,025	336	-	60,685
Septic Repair Betterment Repayments	39,867	1,057	5,222	-	35,702
South Grafton Community House Facility Revolving	7,571	7,943	-	-	15,514
Treasurer Tax Title Fees	-	53,513	52,353	-	1,160
Affordable Housing Fund	1,356,115	79,270	9,625	-	1,425,760
Conservation Fund	22,575	1,314	-	-	23,889
Unemployment Compensation Fund	51,179	3,484	59,095	45,000	40,568
Total Special Revenue Funds	6,652,505	5,406,256	6,685,953	10,337	5,383,145

Capital Projects:					
School Projects:					
Elementary School Construction	13,515	-	-	-	13,515
High and Middle School Renovations	2,837	-	-	-	2,837
Middle School Renovations	34	-	-	-	34
Facilities Upgrades	4,622	-	-	-	4,622
Fire Station	143,430	-	15,142	-	128,288
One Grafton Common Restoration	504,160	-	504,160	-	-
Road Stabilization	1,487,103	-	1,449,749	1,456,364	1,493,718
Stow Road Construction	-	-	32,990	50,000	17,010
Town House Restoration	654,334	-	654,334	-	-
Total Capital Projects	2,810,035	\$ -	2,656,375	\$ 1,506,364	\$ 1,660,024

TOWN OF GRAFTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Fund Balances July 1, 2015	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2016
Perpetual Permanent Funds:					
Ann Cochiola Fund	\$ 5,040	\$ -	\$ -	\$ -	5,040
Campbell Fund	1,815	-	-	-	1,815
Cemetery Perpetual Care Fund	607,929	21,075	-	-	629,004
Library Fund	71,985	-	-	-	71,985
Palmer Gift - Pine Grove Fund	1,000	-	-	-	1,000
Whitin Gate and Bell Fund	11,000	-	-	-	11,000
Total Perpetual Permanent Funds	698,769	21,075	-	-	719,844
Permanent Funds:					
Ann Cochiola Fund	4,983	583	-	-	5,566
Campbell Fund	2,106	229	-	-	2,335
Cemetery Perpetual Care Fund	171,371	46,269	-	-	217,640
Library Fund	223,291	17,189	-	-	240,480
Palmer Gift - Pine Grove Fund	7,320	484	-	-	7,804
Whitin Gate and Bell Fund	23,247	1,994	-	-	25,241
Total Permanent Funds	432,318	66,748	-	-	499,066
Total Non-Major Governmental Funds	\$ 10,593,627	\$ 5,494,079	\$ 9,342,328	\$ 1,516,701	\$ 8,262,079

TOWN OF GRAFTON, MASSACHUSETTS
SCHEDULE OF REAL ESTATE, PERSONAL PROPERTY AND ROLLBACK TAXES
AND COMMUNITY PRESERVATION SURCHARGE
JULY 1, 2015 TO JUNE 30, 2016

	Uncollected Taxes July 1, 2015	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2016	Uncollected Taxes Per Detail June 30, 2016
Real Estate Taxes:						
Levy of 2016	\$ -	\$ 35,839,715	\$ 295,661	\$ 35,353,057	\$ 190,997	\$ 190,997
Levy of 2015	256,036	74,369	105,947	224,458	-	-
Levy of 2014	(1,579)	-	(3,313)	1,734	-	-
Prior Years	1,240	-	1,240	-	-	-
	255,697	35,914,084	399,535	35,579,249	190,997	190,997
Personal Property Taxes:						
Levy of 2016	-	884,760	4,164	873,415	7,181	7,158
Levy of 2015	6,158	-	1,656	1,421	3,081	3,081
Levy of 2014	6,934	-	1,403	897	4,634	4,634
Levy of 2013	7,587	-	1,838	(169)	5,918	5,918
Levy of 2012	6,512	-	2,095	(846)	5,263	5,263
Prior Years	29,740	-	23,975	(5,645)	11,410	11,410
	56,931	884,760	35,131	869,073	37,487	37,464
Rollback Taxes	-	12,234	-	12,234	-	-
Total Real Estate, Personal Property and Rollback Taxes	\$ 312,628	\$ 36,811,078	\$ 434,666	\$ 36,460,556	\$ 228,484	\$ 228,461
Community Preservation Surcharge:						
Levy of 2016	\$ -	\$ 376,270	\$ 3,200	\$ 372,254	\$ 816	\$ 816
Levy of 2015	5,223	1,111	999	5,335	-	-
Levy of 2014	394	-	-	394	-	-
Prior Years	10	-	10	-	-	-
Total Community Preservation Surcharge	\$ 5,627	\$ 377,381	\$ 4,209	\$ 377,983	\$ 816	\$ 816

TOWN OF GRAFTON, MASSACHUSETTS
SCHEDULE OF MOTOR VEHICLE AND BOAT EXCISE TAXES
JULY 1, 2015 TO JUNE 30, 2016

	Uncollected Taxes July 1, 2015	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2016	Uncollected Taxes Per Detail June 30, 2016
Motor Vehicle Excise Taxes:						
Lewy of 2016	\$ -	\$ 2,329,148	\$ 35,479	\$ 2,194,444	\$ 99,225	\$ 99,225
Lewy of 2015	89,215	449,885	25,092	481,255	32,753	32,753
Lewy of 2014	32,553	-	2,065	16,614	13,874	13,874
Lewy of 2013	15,519	46	1,242	1,740	12,583	12,583
Lewy of 2012	9,183	-	-	1,401	7,782	7,782
Prior Years	18,875	-	16,704	457	1,714	1,667
Total Motor Vehicle Excise Taxes	165,345	2,779,079	80,582	2,695,911	167,931	167,884
Boat Excise Taxes:						
Lewy of 2015	-	2,235	56	1,934	245	245
Lewy of 2014	746	-	69	30	647	667
Lewy of 2013	430	-	(69)	26	473	480
Lewy of 2012	418	-	-	-	418	418
Prior Years	590	-	-	(161)	751	892
Total Boat Excise Taxes:	2,184	2,235	56	1,829	2,534	2,702
Total Motor Vehicle and Boat Excise Taxes	\$ 167,529	\$ 2,781,314	\$ 80,638	\$ 2,697,740	\$ 170,465	\$ 170,586

**TOWN OF GRAFTON, MASSACHUSETTS
SCHEDULE OF TAX LIENS
JULY 1, 2015 TO JUNE 30, 2016**

	Uncollected Accounts July 1, 2015	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Accounts June 30, 2016	Uncollected Accounts Per Detail June 30, 2016
General Fund:						
Tax Liens	\$ 928,032	\$ 272,187	\$ 21,400	\$ 238,342	\$ 940,477	\$ 935,107
Non-major Governmental Fund:						
Community Preservation Surcharge:						
Tax Liens	\$ 8,253	\$ 2,272	\$ 17	\$ 2,072	\$ 8,436	\$ 4,358